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Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:FIP:B01

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Date: February 4, 2011

Legend:

Taxpayer =

State A =

Year 1 =

Year 2 =

Year 3 =

Year 4 =

A =

Dear :

This is in response to your letter dated April 14, 2010, and subsequent submissions and conversations with your representatives, requesting rulings that, pursuant to section 856(c)(5)(J)(ii) of the Internal Revenue Code of 1986, as amended (the "Code"), certain inclusions under sections 951(a)(1)(A), 951(a)(1)(B), 1291(a) and 1293(a) of the Code will be considered gross income qualifying under section 856(c)(2).

FACTS

Taxpayer, a State A real estate investment trust, has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes. Founded in Year

1, Taxpayer made an initial public offering of its shares in Year 2. Through its direct and indirect domestic and foreign subsidiaries, Taxpayer leases industrial facilities to more than A customers, including manufacturers, retailers, transportation companies, third-party logistic providers, and other enterprises with large-scale distribution needs.

Taxpayer owns, either directly or indirectly through disregarded entities or foreign partnerships, stock of several foreign subsidiaries that are associations (and thus corporations) pursuant to section 301.7701-3 of the Procedure and Administration Regulations, and for which taxable REIT subsidiary ("TRS") elections have been made pursuant to section 856(l)(1)(B) of the Code. Such foreign subsidiaries are either controlled foreign corporations within the meaning of section 957(a) ("CFCs") with respect to which Taxpayer is a United States shareholder within the meaning of section 951(b) (a "United States shareholder") or passive foreign investment companies under section 1297(a) ("PFICs"), some of which Taxpayer has made elections under section 1295(a) to treat as qualified electing funds ("QEFs").

As a result of being a United States shareholder with respect to CFCs, Taxpayer is required by section 951(a)(1)(A)(i) to include in its gross income its pro rata share of the subpart F income, as defined in section 952(a), of any such CFCs. Additionally, as a result of being a United States shareholder with respect to CFCs, Taxpayer is required by section 951(a)(1)(B) to include in its gross income its share of the amount determined under section 956 with respect to each CFC for the relevant tax year (but only to the extent not excluded from gross income under section 959(a)(2)).

As a result of being a shareholder in PFICs for which Taxpayer has made QEF elections, Taxpayer is required under section 1293(a) to include in its gross income its pro rata share of the ordinary earnings and net capital gain income of each such QEF. As a result of being a shareholder in PFICs for which Taxpayer has not made any elections, Taxpayer is required to include amounts in income (as ordinary income) pursuant to section 1291.

Taxpayer is required to include in its gross income the Subpart F Inclusions (as defined below), Section 956 Inclusions (as defined below) and PFIC Inclusions (as defined below) for purposes of its gross income tests under section 856(c)(2) and (3). These amounts have not exceeded 5 percent of Taxpayer's gross income for Year 3 or earlier years. Taxpayer is concerned that these amounts may exceed 5 percent of its gross income in Year 4 and subsequent years, potentially resulting in Taxpayer losing its qualification as a REIT. For its Year 3 tax year and subsequent tax years, Taxpayer expects to report:

- Section 951(a)(1)(A) inclusions attributable to one or more CFCs' foreign personal holding company income (the "Subpart F Inclusions");
- Section 951(a)(1)(B) inclusions that arose in connection with the pledge of a CFC's assets against debt of Taxpayer. Taxpayer represents that such debt was

incurred to finance the acquisition of certain of its real estate assets (the “Section 956 Inclusions”); and

- Section 1293(a)(1) ordinary income inclusions from PFICs for which QEF elections have been made (the “QEF Inclusions”, and together with amounts included in income pursuant to section 1291(a), the “PFIC Inclusions”).

LAW AND ANALYSIS

Section 856(c)(2) of the Code provides that at least 95 percent of a REIT’s gross income (excluding gross income from prohibited transactions) is derived from dividends, interest, rents from real property, gain from the sale or other disposition of stock, securities, and real property (including interests in real property and interests in mortgages on real property) which is not property described in section 1221(a)(1), and certain other sources.

Section 856(c)(5)(J) provides that to the extent necessary to carry out the purposes of Part II of Subchapter M of the Code, the Secretary is authorized to determine, solely for purposes of such part, whether any item of income or gain which-- (i) does not otherwise qualify under section 856(c)(2) or (3) may be considered as not constituting gross income for purposes of section 856(c)(2) or (3), or (ii) otherwise constitutes gross income not qualifying under section 856(c)(2) or (3) may be considered as gross income which qualifies under section 856(c)(2) or (3).

The legislative history underlying the tax treatment of REITs indicates that the central concern behind the gross income restrictions is that a REIT’s gross income should largely be composed of passive income. For example, H.R. Rep. No. 2020, 86th Cong., 2d Sess. 4 (1960) at 6, 1960-2 C.B. 819, at 822-823 states, “[o]ne of the principal purposes of your committee in imposing restrictions on types of income of a qualifying real estate investment trust is to be sure the bulk of its income is from passive income sources and not from the active conduct of a trade or business.”

Issue 1

Section 957 of the Code defines a CFC as a foreign corporation in which more than 50 percent of the total combined voting power of all classes of stock entitled to vote, or the total value of the stock is owned by United States shareholders on any day during the corporation’s taxable year. A United States shareholder is defined in section 951(b) as a United States person who owns 10 percent or more of the total voting power of the foreign corporation. Taxpayer represents that it is a United States shareholder within the meaning of section 951(b) with respect to certain subsidiaries that are CFCs.

Section 951(a)(1)(A)(i) generally provides that, if a foreign corporation is a CFC for an uninterrupted period of 30 days or more during a taxable year, every person who

is a United States shareholder of the corporation and who owns stock in the corporation on the last day of the taxable year in which the corporation is a CFC shall include in income the shareholder's pro rata share of the CFC's subpart F income for the taxable year.

Section 952 defines subpart F income to include foreign base company income, as determined under section 954. Under section 954(a)(1), foreign base company income includes foreign personal holding company income ("FPHCI"), as determined under section 954(c). Section 954(c)(1)(A) defines FPHCI income to include (among other things) dividends, interest, royalties, rents, and annuities.

Taxpayer has represented that it is a United States shareholder within the meaning of section 951(b) with respect to certain of its subsidiaries that are CFCs. As Taxpayer's CFCs earn subpart F income attributable to foreign base company income that is FPHCI and such income is generally passive income, treatment of the section 951(a)(1)(A)(i) inclusion attributable to such income as qualifying income for purposes of section 856(c)(2) does not interfere with or impede the policy objectives of Congress in enacting the income test under section 856(c)(2). Accordingly, we rule that Subpart F Inclusions attributable to FPHCI earned by CFCs are qualifying income for purposes of section 856(c)(2), as provided in section 856(c)(5)(J)(ii).

Issue 2

Section 951(a)(1)(B) of the Code provides that, if a foreign corporation is a CFC for an uninterrupted period of 30 days or more during a taxable year, every person who is a United States shareholder of the corporation and who owns stock in the corporation on the last day of the taxable year in which the corporation is a CFC shall include in gross income the amount determined under section 956 with respect to the shareholder for such year (but only to the extent not excluded from gross income under section 959(a)(2)).

Section 956(a) provides that in the case of a CFC, the amount determined under section 956 with respect to any United States shareholder for any taxable year is the lesser of -- (1) the excess (if any) of-- (A) such shareholder's pro rata share of the average of the amounts of United States property held (directly or indirectly) by the CFC as of the close of each quarter of such taxable year, over (B) the amount of earnings and profits described in section 959(c)(1)(A) with respect to such shareholder, or (2) such shareholder's pro rata share of the applicable earnings of such CFC. The amount taken into account in the preceding sentence under (1) with respect to any property shall be its adjusted basis as determined for purposes of computing earnings and profits, reduced by any liability to which the property is subject.

Section 1.956-2(c)(1) of the Income Tax Regulations (the "Regulations") provides that except as provided in section 1.956-2(c)(4), any obligation (as defined in section

1.956-2(d)(2)) of a United States person (as defined in section 957) with respect to which a CFC is a pledgor or guarantor shall be considered for purposes of section 956(a) to be United States property held by such CFC. Section 1.956-2(c)(2) provides that if the assets of a CFC serve at any time, even though indirectly, as security for the performance of an obligation of a United States person, then, the CFC will be considered a pledgor or guarantor of that obligation.

Taxpayer has represented that assets of one of its CFCs have been pledged as collateral for certain debt of Taxpayer that was incurred to finance Taxpayer's acquisition of real estate assets. This pledge has caused Taxpayer to recognize a Section 956 Inclusion. The facts and representations in this case indicate that the Section 956 Inclusion occurred as a result of a debt of Taxpayer's that arose in connection with the acquisition of real estate assets. This has a close nexus to Taxpayer's business of investing in real property assets. The Section 956 Inclusion recognized in connection with the production of otherwise qualifying income is treated as qualified income for purposes of section 856(c)(2) to the extent that the underlying income so qualifies. Accordingly, we rule that to the extent Taxpayer recognizes a Section 956 Inclusion on the pledge of the assets of a CFC to secure a debt of the Taxpayer that is used to finance the acquisition of real estate assets from which income is derived that qualifies under section 856(c)(2), there is a sufficient nexus to treat the Section 956 Inclusion as qualifying income for purposes of section 856(c)(2), as provided in section 856(c)(5)(J)(ii).

Issue 3

Section 1297(a) of the Code defines PFIC as a foreign corporation where either (1) 75 percent or more of the gross income of such corporation for the taxable year is passive income, or (2) the average percentage of assets (as determined in accordance with section 1297(e)) held by such corporation during the taxable year which produce passive income or which are held for the production of passive income is at least 50 percent. Section 1297(b) defines the term "passive income" as income of a kind that would be FPHCI under section 954(c), subject to certain exceptions.

Section 1291(a)(1) provides that if a United States person receives an excess distribution (as defined in section 1291(b)) in respect of stock in a PFIC, then -- (A) the amount of the excess distribution shall be allocated ratably to each day in the shareholder's holding period for the stock, (B) with respect to such excess distribution, the shareholder's gross income for the current year shall include (as ordinary income) only the amounts allocated under section 1297(a)(1)(A) to -- (i) the current year, or (ii) any period in the shareholder's holding period before the 1st day of the 1st taxable year of the company which begins after December 31, 1986, and for which it was a PFIC, and (C) the tax imposed by this chapter for the current year shall be increased by the deferred tax amount (determined under section 1297(c)).

Section 1295(a) provides that a PFIC will be treated as a QEF with respect to a shareholder if (1) an election by the shareholder under section 1295(b) applies to such PFIC for the taxable year; and (2) the PFIC complies with such requirements as the Secretary may prescribe for purposes of determining the ordinary earnings and net capital gains of such company. Section 1293(a) provides that every United States person who owns (or is treated under section 1298(a) as owning) stock of a QEF at any time during the taxable year of such fund shall include in gross income-- (A) as ordinary income, such shareholder's pro rata share of the ordinary earnings of such fund for such year, and (B) as long-term capital gain, such shareholder's pro rata share of the net capital gain of such fund for such year.

Taxpayer has represented that it is a shareholder of certain subsidiaries that are PFICs and that it has made QEF elections with respect to certain of these PFICs. As Taxpayer's PFIC's earn income that is FPHCI and such income is generally passive income, treatment of such PFIC Inclusions as qualifying income for purposes of section 856(c)(2) does not interfere with or impede the policy objectives of Congress in enacting the income test under section 856(c)(2). Accordingly, we rule Taxpayer's PFIC Inclusions are qualifying income for purposes of section 856(c)(2), as provided in section 856(c)(5)(J)(ii).

CONCLUSION

Based on the facts as represented, we rule that, pursuant to section 856(c)(5)(J)(ii) of the Code, Taxpayer's Subpart F Inclusions, Section 956 Inclusions and PFIC Inclusions constitute qualifying income under section 856(c)(2).

No opinion is expressed about the tax treatment of the proposed transaction under other provisions of the Code and Regulations or about the tax treatment of conditions existing at the time of, or effects resulting from, the proposed transactions that are not specifically covered by the above rulings. Additionally, we express no opinion as to whether any of Taxpayer's assets qualify as real estate assets under section 856(c)(5)(B) of the Code. In particular, no opinion is expressed concerning whether Taxpayer otherwise qualifies as a REIT under part II of subchapter M of Chapter 1 of the Code.

This ruling is directed only to the taxpayer who requested it, and is limited to the facts as represented by the taxpayer. Section 6110(k)(3) provides that this letter may not be used or cited as precedent. A copy of this letter ruling must be attached to any federal income tax return to which it is relevant.

In accordance with the power of attorney on file with this office, copies of this letter are being sent to your authorized representatives.

Sincerely,

Diana Imholtz
Diana Imholtz
Branch Chief, Branch 1
Office of Associate Chief Counsel
(Financial Institutions & Products)

Enclosures:

Copy of this letter
Copy for section 6110 purposes